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December 17, 2015  
BY HAND

Susan Hudson, Clerk  
Vermont Public Service Board  
112 State Street, Drawer 20  
Montpelier, VT 05620

**In Re: Petition of Vermont Gas Systems, Inc., requesting a certificate of public good, pursuant to 30 V.S.A. Section 248, authorizing the construction of the "Addison Natural Gas Project" consisting of approximately 43 miles of new natural gas transmission pipeline in Chittenden and Addison Counties, approximately 5 miles of new distribution mainlines in Addison County, together with three new gate stations in Williston, New Haven and Middlebury, Vermont**

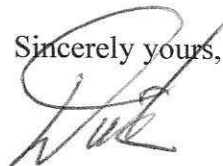
**Docket No. 7970**

Dear Sue:

Enclosed please find the Vermont Fuel Dealers Association Post Hearing Memorandum in the above docket.

Thank you.

Sincerely yours,



Richard H. Saudek

Enclosure  
cc.: Service List with enc.

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 7970

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**VERMONT FUEL DEALERS ASSOCIATION  
POST-HEARING MEMORANDUM**

Vermont Gas Systems once again has come back to the well to ask the Board to put another multi-million-dollar cost increase on the backs of current Vermont Gas ratepayers. This time, it wants approval to force its current customers to cross-subsidize its extension to the tune of roughly \$45,000 per estimated new customer – a subsidy that would last a projected 32 to 33 years. It would be a breathtaking departure from the principle that utility customers are expected to pay for a utility plant that is in fact serving them – that is actually "used and useful," not simply used and useful because the Department of Public Service says it is.

### **The Memorandum of Understanding**

In an attempt to avoid full consideration of the causes and effects of cost increases in a vastly changed energy market, the Department and Vermont Gas Systems signed a hastily-conceived Memorandum of Understanding (“MOU”), which purported to “save” ratepayers \$20 million. Having raised the cost estimates by about \$33 million (which included a \$16 million contingency), Vermont Gas Systems said that, barring a litany of exceptions, it would cap its costs recoverable from ratepayers at \$134 million.

The MOU makes major unnecessary concessions to Vermont Gas, which encroach on the Board’s authority to conduct full examinations of future Vermont Gas rate applications.

In the Introduction, the Department agrees that, if the project is built as approved, it “is used and useful for the purposes of rate proceedings.” (In testimony on December 1, Commissioner Recchia conceded that this was a binding agreement on the current Department and its successors.) Why this unusual concession was necessary is a mystery; what it appears to do is take a major potential issue off the table for future rate cases.

Paragraph 2 of the Agreement allows numerous exceptions to the \$134 million “cap.” While these exceptions appear ordinary, they reflect problems that are likely to arise. For instance, does a “force majeure event” (which is undefined) include a few days of flooding that result in overtime pay? How about a protest in which some company personnel are diverted to clear people opposed to fracking from the entrance to a construction site? And what is meant by “material delays in rights-of-way construction access”?

Paragraph 3 assures that the new rates will go into effect at the earliest possible moment. This was confirmed by Commissioner Recchia in his live testimony on December 1.

In an empty “concession” by Vermont Gas, the company agrees in paragraph 4 to abide by §§30 and 209 of Title 30, which require it to make books and records available to regulators and to abide by PSB rules.

By agreeing in paragraph 5 that it is “appropriate” to place the first 11 miles of the new pipeline in service, the parties to the MOU would again supplant the Board’s judgment, without offering proof to back it up.

And finally, in paragraph 6, the parties to the MOU in effect tell the Board when it must reach a final decision on the issuance of a Certificate of Public in this docket.

### **The Original Justifications for the Project No Longer Exist**

The “advantages” to current oil heat customers of switching to natural gas are an illusion. As Matthew Cota testified:

- At current prices, it would take 33 years for an Addison County residential customer who switched from oil to natural gas to break even (Cota prefiled testimony at 5);
- Oil prices are expected to stay low for 25 years (Id.);
- The projections by Vermont Gas Systems don’t account for any conversion costs. These costs average \$12,000 (Cota testimony at 5-6);
- The availability of cold climate heat pumps can be expected to cut further into the number of conversions (Cota at 9);
- The above factors lead to the conclusion that conversions would take place in many less than the 1909 homes projected by Vermont Gas Systems (Cota at 8-9);
- Due to falling oil consumption in homes, fewer gallons of oil are likely to be replaced – annual oil consumption is closer to 586 gallons, not the 724 gallons used in the Vermont Gas projections (Cota at 8-9);

- Even assuming that some customers would switch, they would likely be replacing biodiesel blended oil instead of unblended oil, so the environmental benefits would not be as claimed by Vermont Gas Systems (Id.)

### **Drastic Changes in the Energy Markets Have Erased the Benefits of the Project**

While this case has been pending, the difference in the price of heating of oil and natural gas has become negligible. In fact, The Vermont Fuel Price Report for December 2015<sup>1</sup>, issued by the Department of Public Service, shows that heating oil burned in a 95% efficiency burner actually costs less per MMBTU than natural gas in an 80% efficiency burner:

#### Oil:

High Efficiency (95%);	\$16.01 per MMBTU
Low Efficiency (80%)	19.02 per MMBTU

#### Natural Gas:

High Efficiency (95%)	\$14.67 per MMBTU
Low Efficiency (80%)	17.42 per MMBTU

Dr. Hopkins, in testimony on December 1, 2015, maintained that he hadn't considered the difference in oil and natural gas prices because they generally move together. While the Department's report does show they moved in the same direction over the last year, there is a huge gap in the extent to which they moved:

A comparison of the Department's December 2014 and December 2015 reports shows that *natural gas (95% efficiency) has decreased from \$15.60 to \$14.67, a decrease of 5.96%, while heating oil (95% efficiency) has gone from \$24.52 to \$16.01, a decrease of 34.7%!*

<sup>1</sup> The Vermont Fuel Price Reports for December 2015 and December 2014 are attached as Exhibit A(1) and A(2). VFDA asks the Board to take administrative notice of the Vermont Fuel Price Reports, which have been issued monthly by the Department of Public Service since 2008.

### **Testimony of Witnesses in Support of MOU**

The testimony in support of the MOU was more notable for what it omitted than for what it said. Mr. Rendall refused to be drawn into any discussion of costs or rates, repeating that the company has “lots of tools in our toolbox to deal with that.” Tools in a toolbox is hardly a convincing argument on which to base a finding that a project “[w]ill result in an economic benefit to the State and its residents” (§248(b)(1)(B)(4)) and bring the other benefits that are listed in §248. In response to questions about why existing customers should be happy about paying considerably more so the company can expand its customer base, Mr. Rendall noted that the company brought its customers “choice and opportunities.” On the question of competition from low oil prices, he simply said that they could go up again.

Commissioner Recchia and Dr. Asa Hopkins weren’t much help either. When asked what they would tell existing ratepayers who were facing an increase to finance the extension, they indicated they would say their sacrifice was for the general benefit of Vermont and Vermonters.<sup>2</sup> Curiously, neither Mr. Rendall nor Commissioner Recchia was inclined to attribute any of the considerable cost increases to extra time and materials costs of pulling and replacing damaged pipe, nor did the Department analyze what it would cost to stop construction now.

One thing is clear: This extension will not happen if a Certificate is granted and Vermont Gas Systems has to pay to build the line. Nor will it be built if the costs are split evenly between

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<sup>2</sup> Vermont residents are used to making sacrifices for the general good, from recycling to conservation to zoning to renewable power rates, but their decisions to do so are either voluntary or made after considerable weighing of the pros and cons by elected officials. And they are backed up by stronger evidence than simple statements that the Department has concluded that the addition of a major fossil fuel source is worth substantially higher costs to ratepayers.

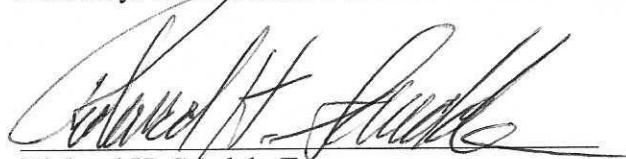


existing customers and the company, or for that matter, between new and existing customers. Once a Certificate is issued with the MOU in effect, it will be the company that will get the major benefits by picking up new customers and not having to pay for them. Despite Mr. Rendall's protestations that the company is "in a competitive market," its competitors don't have the luxury of having existing customers forced to pay to get them new customers. If one of the goals of regulation is to substitute for competition by reining in abuses by regulated companies of their special status of guaranteed rates, regulators should guard against a situation that allows a regulated company to take advantage of its customers in this fashion.

Dated: Montpelier, Vermont December 17, 2015

Respectfully submitted,

DIAMOND & ROBINSON, P.C.  
Attorneys for Vermont Fuel Dealers Association.

A handwritten signature in black ink, appearing to read "Richard H. Saudek", written over a horizontal line.

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